

Fraud Awareness Newsletter

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**Courtesy of the
Department of Defense
Office of the Inspector General
Defense Criminal Investigative Service
Central Field Office**



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Prosecutions Stolen Checks

Indictments were returned against Tommie Lee Harper, Sadie Tillman and April Johnson, residents of the Atlanta area, charging them with conspiracy to defraud the Government and forgery of U.S. Treasury checks. Harper allegedly received U.S. Treasury checks stolen from the Defense Finance and Accounting Service (DFAS), Bolling Air Force Base, Washington, DC, and from the Library of Congress, Washington, DC. It is believed an organized Nigerian gang was the source of the stolen checks and funneled them to Harper. Tillman and Johnson allegedly assisted Harper in negotiating the stolen checks, using

fraudulent identification that included a military identification card. Approximately 97 checks, amounting to over \$174,000, were cashed at several financial institutions and commercial check cashing establishments in the Atlanta area between December 1994 and April 1996. Special Agent Ricky Burrell, Jacksonville Post of Duty (POD), is conducting the investigation with the U.S. Secret Service.



False Billings

A 26-count indictment was returned against Coast Scientific, Incorporated (CSI), San Diego, CA; Saeid Shahri, owner, CSI; and Priscilla Galleres Bray, an employee of the Scripps Research Institute (Scripps), La Jolla, CA. The indictment charges CSI, Shahri and Bray with mail fraud and conspiracy to commit mail fraud against Scripps, a scientific research facility funded, in part, by grants from the DoD. An investigation

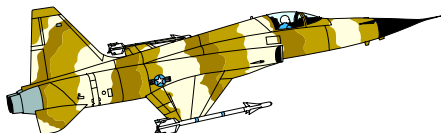
disclosed that Shahri allegedly conspired with Bray to fraudulently bill Scripps for medical supplies that were never delivered. Bray used her position to provide Shahri with fictitious purchase orders. Shahri then submitted invoices to Scripps based on these fraudulent orders. Bray confirmed receipt to the Scripps' Accounting Department and in return she received a portion of the more than \$170,000 Shahri obtained from Scripps. Special Agent Gregory Hedtke, San Diego Resident Agency (RA), is conducting the investigation with the Federal Bureau of Investigation (FBI).



Used Aircraft Parts

Indictments were returned against Garnett Hodgson, owner, Oro Valves, Incorporated, Azusa, CA; Jim Larios, shop foreperson, Oro Valves; and the now-defunct Oro Valves. Hodgson and Larios were charged with conspiracy to submit false claims; Hodgson and Oro valves were charged with submission of false claims, and Hodgson was

charged with theft of Government property. While performing on Government contracts to overhaul, repair and modify military aircraft components, Oro Valves falsely represented to the Government that work was done to set specifications and submitted false claims for payment. Hodgson and Oro Valves allegedly had internal components--air pressure regulator valves and hydraulic accumulators--removed from the Government-owned aircraft parts and replaced them with older, used internal components. The Government components were then installed in other aircraft parts Oro Valves was selling to the commercial airlines and foreign governments. The air pressure regulator valves regulate aircraft cabin pressure and are used in the Air Force F-5 fighter and T-38 training aircraft. The hydraulic accumulators store and use pressurized hydraulic fluid needed to control and land the aircraft. They are used in U.S. Army helicopters such as the UH-60 Blackhawk, SH-60 Seahawk and H-53 Stallion. Special Agent Julio DeGuzman, Van Nuys RA, is conducting the investigation with the FBI, the U.S. Customs Service (USCS), the Department of Transportation, the U.S. Army Criminal Investigation Command (USACIDC) and the Naval Criminal Investigative Service (NCIS).



Reimbursement

A five-count indictment was returned against John Vasper, former director of the Armed Services Young Men's Christian Association (ASYMCA), Honolulu, HI, charging him with theft from the ASYMCA, a federally funded program. Vasper allegedly created false receipts to be reimbursed for purchasing books and postage on DoD contracts being administered by the ASYMCA. A review of the contracts determined the requirement for the purchase of books and postage was either nonexistent or minimal at best. From 1987 to 1997 Vasper received \$747,000 in reimbursements. Special Agent Lynne Lowe, Hawaii POD, is conducting the investigation with the FBI, the NCIS and the U.S. Postal Inspection Service.



Income Tax Fraud

Byron E. Abbott, Jr., former vice president and shareholder, ACS Systems and Engineering, Incorporated (ACS), Virginia Beach, VA, pled guilty to one count of filing a false Federal in-

come tax return. In August 1993, Abbott, with the concurrence of another ACS corporate officer, set up a corporate account at a bank using his home address. Company statements and cancelled checks were subsequently sent to that location and the account was not reflected on corporate records. Corporate receipts totalling \$57,535, to include corporate loan proceeds and DoD contract proceeds from computer repair and maintenance contracts with the Navy, were deposited into the account. Abbott then disbursed the funds to himself and the other corporate official. Abbott understated his income by about \$24,150 on his 1993 tax return. Special Agent Steven Simpson, Norfolk RA, conducted the investigation with the NCIS and the Internal Revenue Service (IRS), with assistance from the Defense Contract Audit Agency.



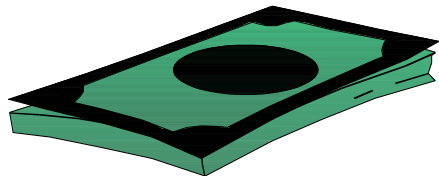
Environmental Crime

Stephen J. Schrang, former president and majority shareholder of Neese Coated Fabrics, Incorporated (Neese), St. Louis, MO, pled guilty to two counts each of submitting false statements to the Government and of improperly generating, transporting, treating, storing or disposing of hazardous waste. Schrang, who fled the United States to

avoid prosecution, was returned to the United States in August 1997. An investigation determined Neese delivered more than 40,000 pieces of defective fabric for the manufacture of tents, valued at over \$2 million, and submitted false fabric test certifications to the DoD. The fabric, which required chemical treatment, resulted in Neese knowingly storing and abandoning ignitable hazardous wastes in the Neese production facility. The Environmental Protection Agency Super Fund Program eventually funded the removal of the waste. Special Agent John Lake conducted the investigation with the U.S. Marshals Service.

Product Substitution

Steven Karlik, Jr., former president, Discrete Products Division, Philips Components (Philips), West Palm Beach, FL, pled guilty to conspiring to defraud the DoD. Karlik conspired to supply nonconforming Qualified Products List (QPL) capacitors to the Defense Electronics Supply Center (DESC) and DoD contractors. To remain on the QPL, military specifications require that various tests be conducted on the parts and any test failures be reported to DESC. Karlik and others caused Philips employees to change and falsify test data to conceal the fact that failures occurred. Special Agent Anthony Hagemeyer, Orlando RA, conducted the investigation with the FBI.



Kickbacks

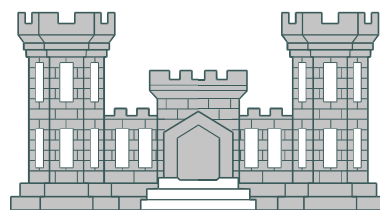
Dennis R. Jenkins, former senior planning engineer, Thiokol Corporation (Thiokol), Brigham City, UT, a DoD contractor, pled guilty to one count of receiving kickbacks. Jenkins accepted cash and other gratuities from William R. Pilkey and Caiam Coatings (a Thiokol subcontractor) in return for Jenkins facilitating a contract modification favorable to Caiam Coatings. Pilkey subsequently submitted false and inflated invoices under the modification in conjunction with a maintenance contract valued at \$700,000. Special Agent Donald Spatig, Salt Lake City RA, conducted the investigation jointly with the National Aeronautics and Space Administration and the Air Force Office of Special Investigations (AFOSI).



Kickbacks

Milton Eugene Beresford, Farmingdale, NY, pled guilty to one count each of illegal receipt of kickbacks and income tax evasion. Beresford, a purchasing agent of raw materials for Israel Aircraft Industries International (IAII), New York, NY, illegally received kickbacks from Royce Aerospace Materials Corporation (Royce), Farmingdale, NY. Royce, a former DoD subcontractor, supplied raw materials such as aluminum and titanium.

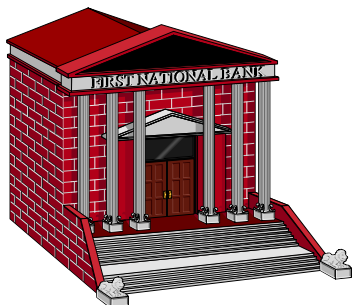
Between 1991 and 1994, Beresford received approximately \$57,000 in cash kickbacks from Royce. In return, Beresford provided Royce with bidding information that enabled Royce to be the lowest bidder on subcontracts awarded by IAII. Beresford failed to report this additional income on his tax returns. Special Agent Stephanie Jimroglou, New York RA, conducted the investigation jointly with the IRS.



Scheme to Defraud

The following were convicted of conspiring to defraud the United States: Thomas S. Rhoades, Colorado, Springs, CO; Steven L. Schluneger, Scottsdale, AZ; T. Robert Hughes, Fort Collins, CO; ARCO Business Services, LTD; and ARCO Properties, LTD. Rhoades and Schluneger were personal sureties on a U.S. Army Corps of Engineers (USACE) contract to sandblast and paint the gates of locks and dams on the Arkansas River in Oklahoma. The contractor defaulted with \$1,642,739.81 in funds remaining on the contract. Rhoades and Schluneger signed a takeover agreement to complete the work. Through Hughes, an attorney and trustee of the ARCO entities, they subcontracted the work for \$1.2 million to Skyline painting and the

USACE was not notified. As progress payments were made by the USACE to Rhoades and Schluneger, payments were made to Skyline. Skyline, in turn, was required to pay the ARCO entities 29 percent of the gross as a finder's fee and for bogus engineering consulting services. After keeping a portion of each payment, the ARCO entities then kicked back funds to Rhoades and Schluneger. When Skyline subsequently discontinued work on the project due to losses from flooding, Rhoades, Schluneger and Hughes had received \$236,000. Special Agents Charles Huggins, Denver RA, and Bryan Compton, Tulsa POD, conducted the investigation.



Bank Fraud

Harry Carboni, former management consultant for the now-defunct Cableco, Incorporated (Cableco), Rocky Hill, CT, and North American Cable Corporation (North American), a wholly-owned subsidiary of Cableco, was convicted of bank fraud. Carboni created false invoices and submitted fraudulent borrowing base certificates to a Connecticut bank to obtain funds under the terms of its line of credit. In June 1993, Cableco received a term loan and line of

credit to support its manufacturing and distribution of electrical wire and cable products to its customers, the largest being the Defense Industrial Supply Center (DISC), Philadelphia, PA. Cableco subsequently defaulted on its loan and its contracts with DISC. Cableco's former contract administrator was sentenced previously for conspiring to supply DISC with defective, dangerous, inadequately tested and nonconforming shipboard cable. Special Agent Scott Jackson, Hartford RA, conducted the investigation with the FBI.



Sentences On-the-Job Injury

Eddie Brown, a former DFAS employee, Oakland, CA, was sentenced to 5 years probation (with credit given for 3 days already served in the county jail), a \$200 fine and \$4,262.38 restitution. Brown previously pled no contest to submitting a false injury compensation claim to State Farm insurance. The claim was for injuries he reportedly received while operating a Government-owned vehicle in

performance of his duties. The false claim (for approximately \$30,000) included false DFAS time and attendance leave requests and altered physician records claiming permanent injuries and loss of physical movement. Special Agent Andrea McTair, San Francisco RA, conducted the investigation.

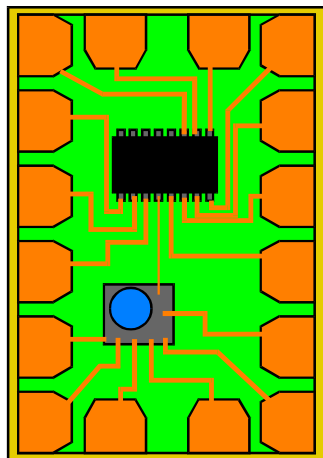
Fuel Additive

Amalgamated Coal and Petroleum Specialists, Incorporated (Amalgamated), Fort Wayne, IN, was sentenced to 3 years probation, ordered to pay a \$5,000 fine and a \$400 special assessment fee for making a false claim against the Government. The same date, Gary G. Pipenger, president of Amalgamated, was sentenced to 2 years probation, ordered to pay a \$500 fine and to perform 50 hours of community service for violating the Federal Insecticide, Fungicide and Rodenticide Act. Amalgamated defrauded the Government by supplying an unapproved, substitute diesel fuel biocide (a fuel additive) on several DoD contracts. Special Agent Christopher Albers, Indianapolis POD, conducted the investigation with the Environmental Protection Agency.

Buy American Act

Arthur Field, president, Abrasive Engineering Tool and Equipment Company, also known as Abesco Industries, Incorporated (Abesco), Gardena, CA, and Abesco were sentenced for making false material statements within the jurisdiction of a department or agency of the United States. Field was sen-

tenced to 5 months incarceration, 5 months home detention, 2 years probation, \$6,385.77 restitution and a \$100 special assessment. Abesco was sentenced to 5 years probation, a \$10,000 fine, \$6,385.77 restitution and a \$400 special assessment. From about 1988 through 1992, Field and Abesco defrauded the Navy, Air Force and Defense Supply Center Richmond by providing foreign-made cutting tools in lieu of American-made cutting tools that were required by the Government contracts. The defendants also failed to conduct quality assurance inspections and Rockwell hardness testing on the cutting tools provided. The loss to the DoD is about \$175,000. Special Agent Eric Braun, Western Field Office, conducted the investigation with the NCIS.



Unapproved Circuit Boards

Timothy Wu, owner and president of NTU Electronics, Incorporated (NTU), Largo, FL, and NTU were sentenced on one count each of entry of goods by means of false statements. Wu was sentenced to 3 years probation and a \$10,000 fine. The

NTU was sentenced to 3 years probation and a \$20,000 fine. Wu allowed a company in China, which was not an approved Underwriters Laboratories (UL) facility, to manufacture thousands of bare circuit boards, place NTU's UL code on the boards and then ship the boards to NTU and Summit Circuits, Incorporated, in Largo, FL. Wu also owned Summit Circuits. The circuit boards were shipped to unsuspecting customers, to include the DoD and commercial contractors. Wu has paid the USCS \$24,986.40 to resolve civil liabilities. In addition, 6,222 improperly marked circuit boards are to be destroyed under USCS supervision. Suspension/debarment action against Wu and his companies is pending. Special Agent Charles Piper, Orlando RA, conducted the investigation with the USCS and the AFOSI.

Embezzlement

Sylvia Cramer, former accounts payable manager for Mission Research Corporation (MRC), Santa Barbara, CA, was convicted of grand theft of funds and sentenced to 120 days in jail, a \$20,000 fine, 3 years probation and required to pay restitution to MRC. The MRC designs fiber optic and infra-red test devices for the Defense Special Weapons Agency and the Defense Advanced Research Projects Agency. An investigation determined Cramer embezzled \$105,000 from the MRC accounts payable fund, thereby affecting the overhead rates on MRC's DoD contracts. Special

Agent Ronald Mayeda, El Segundo RA, conducted the investigation with the Police Department for Santa Barbara, CA.

Civil Settlement Environmental Crime

A consent decree was finalized in U.S. District Court, Norfolk, VA, between the Department of Justice and the following defendants: United Winner Metals, Incorporated (UWM), a scrap metal dealer; Chesapeake West Terminals, Incorporated, owner of the UWM site; and two stevedore contractors hired by UWM, Weeks Marine, Incorporated (Weeks), and M.J. Rudolph, Incorporated (Rudolph). The defendants were ordered to pay a \$300,000 penalty under the Clean Water Act, to cleanup scrap metal from large areas of the Elizabeth River bottom, to post a \$2.5 million bond as assurance the cleanup will be performed, and further provide for the construction of a bulkhead, the removal of a dolphin and the creation, preservation and enhancement of wetlands at the UWM scrap handling facility in Chesapeake, VA. The UWM hired Weeks and Rudolph to load scrap metal on board vessels moored at two UWM sites on the Elizabeth River. During the loading operations, scrap metal routinely fell into the river in violation of the Clean Water Act and the Rivers and Harbors Act. The Elizabeth River is maintained by the USACE. Special Agent Christine Schuck, Norfolk RA, conducted the investigation with the USACIDC in conjunction with the USACE.



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